

PERAC AUDIT REPORT



Marblehead Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2006

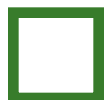


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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

MARY ANN BRADLEY | PAUL V. DOANE | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS

March 6, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Marblehead Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James M. Ryan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

Board Member Attendance:

A review of meeting attendance by Board members showed that one member missed 39% of the meetings for the period of January 2005 through September 2007.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. Members who do not regularly attend meetings may jeopardize their fiduciary duty to the retirement system. Since this member has a work schedule that is likely to conflict with some regularly scheduled meetings, the Board should consider adjusting the schedule of Board meetings to better accommodate all members.

Board Response:

The Marblehead Retirement Board will continue to make a conscious effort to accommodate the varying schedules of each board member. The board members value their obligation and fiduciary responsibility to the members of the retirement system and will make every effort to attend the meetings. The member referenced in the report attended all meetings where decisive issues were discussed or voted such as disability applications, operational budgets, funding schedule and investments.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding this finding..

STATEMENT OF LEDGER ASSETS AND LIABILITIES

			AS OF DECEMBER 31,	
			2006	2005
Net Assets Available For Benefits:				
Cash		\$3,361		\$34,721
PRIT Cash Fund		201,857		901,723
PRIT Core Fund		83,639,343		73,731,061
Interest Due and Accrued		0		0
Accounts Receivable		1,138,207		318,093
Accounts Payable		(1,545)		0
	Total	<u>\$84,981,222</u>		<u>\$74,985,598</u>
Fund Balances:				
Annuity Savings Fund		\$12,998,868		\$12,093,447
Annuity Reserve Fund		5,404,074		5,659,865
Pension Fund		1,022,423		827,414
Military Service Fund		2,049		2,037
Expense Fund		0		0
Pension Reserve Fund		<u>65,553,807</u>		<u>56,402,835</u>
	Total	<u>\$84,981,222</u>		<u>\$74,985,598</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	12,133,371	4,819,751	2,871,155	2,025	0	48,645,942	68,472,244
Receipts	1,607,542	162,401	2,389,484	12	492,469	7,756,893	12,408,801
Interfund Transfers	(1,416,788)	1,416,788	0	0	0	0	0
Disbursements	(230,678)	(739,075)	(4,433,225)	0	(492,469)	0	(5,895,447)
Ending Balance (2005)	12,093,447	5,659,865	827,414	2,037	0	56,402,835	74,985,598
Receipts	1,500,812	166,920	2,532,693	12	581,322	11,516,505	16,298,265
Interfund Transfers	(342,525)	354,109	2,353,950	0	0	(2,365,533)	0
Disbursements	(252,865)	(776,819)	(4,691,634)	0	(581,322)	0	(6,302,641)
Ending Balance (2006)	<u>\$12,998,868</u>	<u>\$5,404,074</u>	<u>\$1,022,423</u>	<u>\$2,049</u>	<u>\$0</u>	<u>\$65,553,807</u>	<u>\$84,981,222</u>

STATEMENT OF RECEIPTS

		FOR THE PERIOD ENDING DECEMBER 31,	
		2006	2005
Annuity Savings Fund:			
Members Deductions		\$1,265,749	\$1,205,597
Transfers from Other Systems		94,479	250,020
Member Make Up Payments and Re-deposits		55,027	66,205
Member Payments from Rollovers		15,127	18,695
Investment Income Credited to Member Accounts		70,430	67,025
Sub Total		<u>1,500,812</u>	<u>1,607,542</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund		<u>166,920</u>	<u>162,401</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits		52,768	41,215
		205,925	235,410
Pension Fund Appropriation		<u>2,274,000</u>	<u>2,112,859</u>
Sub Total		<u>2,532,693</u>	<u>2,389,484</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service		0	0
Investment Income Credited to the Military Service Fund		<u>12</u>	<u>12</u>
Sub Total		<u>12</u>	<u>12</u>
Expense Fund:			
Expense Fund Appropriation			
Investment Income Credited to the Expense Fund		<u>581,322</u>	<u>492,469</u>
Sub Total		<u>581,322</u>	<u>492,469</u>
Pension Reserve Fund:			
Federal Grant Reimbursement		6,396	5,230
Pension Reserve Appropriation		0	0
Interest Not Refunded		2,666	2,242
Miscellaneous Income		0	36
Excess Investment Income		<u>11,507,444</u>	<u>7,749,384</u>
Sub Total		<u>11,516,505</u>	<u>7,756,893</u>
Total Receipts		<u><u>\$16,298,265</u></u>	<u><u>\$12,408,801</u></u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Annuity Savings Fund:		
Refunds to Members	\$217,420	\$145,453
Transfers to Other Systems	<u>35,445</u>	<u>85,225</u>
Sub Total	<u>252,865</u>	<u>230,678</u>
Annuity Reserve Fund:		
Annuities Paid	776,819	736,963
Option B Refunds	<u>0</u>	<u>2,112</u>
Sub Total	<u>776,819</u>	<u>739,075</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	3,473,426	3,294,906
Survivorship Payments	38,721	40,303
Ordinary Disability Payments	139,754	149,595
Accidental Disability Payments	533,045	499,524
Accidental Death Payments	201,944	123,013
Section 101 Benefits	12,889	12,347
3 (8) (c) Reimbursements to Other Systems	86,027	78,127
State Reimbursable COLA's Paid	184,639	203,672
Chapter 389 Beneficiary Increase Paid	<u>21,190</u>	<u>31,738</u>
Sub Total	<u>4,691,634</u>	<u>4,433,225</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	0	0
Salaries	87,144	86,168
Legal Expenses	13,876	11,186
Medical Expenses	0	0
Travel Expenses	230	0
Administrative Expenses	19,575	8,076
Furniture and Equipment	0	0
Management Fees	456,925	383,636
Fiduciary Insurance	<u>3,572</u>	<u>3,402</u>
Sub Total	<u>581,322</u>	<u>492,469</u>
Total Disbursements	<u><u>\$6,302,641</u></u>	<u><u>\$5,895,447</u></u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Investment Income Received From:		
Cash	\$5,787	\$2,572
Short Term Investments	0	0
Fixed Income	0	0
Equities	0	0
Pooled or Mutual Funds	2,648,250	2,288,318
Total Investment Income	<u>2,654,036</u>	<u>2,290,890</u>
Plus:		
Realized Gains	5,371,695	4,275,601
Unrealized Gains	7,268,393	7,168,678
Interest Due and Accrued - Current Year	0	0
Sub Total	<u>12,640,088</u>	<u>11,444,279</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	0	0
Realized Loss	0	0
Unrealized Loss	2,967,997	5,263,878
Interest Due and Accrued - Prior Year	0	0
Sub Total	<u>2,967,997</u>	<u>5,263,878</u>
Net Investment Income	<u>12,326,127</u>	<u>8,471,291</u>
Income Required:		
Annuity Savings Fund	70,430	67,025
Annuity Reserve Fund	166,920	162,401
Military Service Fund	12	12
Expense Fund	581,322	492,469
Total Income Required	<u>818,684</u>	<u>721,907</u>
Net Investment Income	<u>12,326,127</u>	<u>8,471,291</u>
Less: Total Income Required	<u>818,684</u>	<u>721,907</u>
Excess Income To The Pension Reserve Fund	<u>\$11,507,444</u>	<u>\$7,749,384</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$3,361	0.0%	100%
PRIT Cash Fund	201,857	0.2%	100%
PRIT Core Fund	<u>83,639,343</u>	<u>99.8%</u>	100%
Grand Total	<u><u>\$83,844,561</u></u>	<u><u>100.0%</u></u>	

For the year ending December 31, 2006, the rate of return for the investments of the Marblehead Retirement System was 16.85%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Marblehead Retirement System averaged 11.67%. For the twenty-two year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Marblehead Retirement System was 11.01%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Marblehead Retirement System does not have any supplementary investment regulations on file with PERAC as of this current period.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Marblehead Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the retirement system:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three-year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the three consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

General Laws, Chapter 32 provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members-in-service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$648.48 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full-time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full-time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his/her death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one-time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member-in-service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full-time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the retirement board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index (CPI) used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living Adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, or the child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the system has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Marblehead Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

March 26, 2001

Service Liability

The Marblehead Retirement Board will not accept any liability pursuant to the M.G.L. c. 32, § 3(8)(c) for any service that is rendered in the Town of Marblehead, which did not entitle the employee to membership in the Marblehead Retirement System, unless the employee subsequently becomes a member of the Marblehead Retirement System and purchases said service while employed in the Town of Marblehead.

August 30, 2000

Recovery of Earnings in Excess of the Statutory Limitations set forth in G.L. c. 32, § 91A:

If a (disability retiree) of the Marblehead Retirement System whose earnings exceed the limitations set forth in G.L. c. 32, § 91A can demonstrate that a lump-sum payment of said over earnings to the System would result in financial hardship, the Board shall, in its sole discretion, develop a monthly payment schedule to address the member's financial needs, not to exceed six months. If the (disability retiree) elects to utilize said monthly payment schedule, the method of payment shall be by automatically withholding the predetermined amount from the members monthly retirement allowance.

January 12, 1989

Membership

Group I employees must work the equivalent of 1,040 hours per year in order to become members of the system.

Creditable Service

Call firefighters shall receive one year of creditable service for each five years of actual service not to exceed a total of five years, provided that the call firefighter is later appointed a permanent member of the force.

A member who is compensated on a full time basis shall be credited with one year of service for such year.

If a member's or applicant's work is provisional, temporary, temporary provisional, temporary intermittent, seasonal or permanent intermittent, then the retirement board shall determine total hours for which said member or applicant was paid regular compensation in any specified year, divide said hours by the average of the actual hours worked during any period of three consecutive years of creditable service for which such rate of compensation was the highest, or on

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

the average annual rate of regular compensation received by such member during the period or periods, whether consecutive or not constituting his three years of creditable service preceding retirement, and allow creditable service for a percentage in each year on the basis of said average.

The percentage of credit which will be allowed for a partial year of service shall not be greater than the days actually worked, divided by 365, and said credit shall not exceed one year.

The number of years, months or days (assuming 365 days in a year) of creditable service to be used in computing the member's retirement allowance shall be taken as the sum of the amount of service credited for each of the years during which the individual was a member of the Retirement System.

October 8, 2002

Travel Regulations

The Board has adopted Supplemental Travel Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Finance Director who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: John J. McGinn

Appointed Member: Anthony M. Sasso Term Expires: Annually

Elected Member: Paul E. Jalbert Term Expires: 8/08/08

Elected Member: Calvin R. Powers Term Expires: 1/18/09

Appointed Member: Robert F. Peck Jr. Term Expires: 7/27/10

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$1,000,000 Commercial Crime &
		\$50,000,000 Fiduciary with Travelers
Elected Member:)	AIG and Arch
Appointed Member:)	
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2006.

The actuarial liability for active members was	\$35,317,485
The actuarial liability for vested terminated members was	285,581
The actuarial liability for retired members was	<u>47,345,203</u>
The total actuarial liability was	82,948,269
System assets as of that date were	<u>69,105,082</u>
The unfunded actuarial liability was	<u>\$13,843,187</u>
 The ratio of system's assets to total actuarial liability was	 <u>83.3%</u>
As of that date the total covered employee payroll was	\$14,159,647

The normal cost for employees on that date was 7.8% of payroll

The normal cost for the employer was 6.3% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: 5.00% per annum – varies by year

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$69,105,082	\$82,948,269	\$13,843,187	83.3%	\$14,159,647	97.8%
1/1/2004	\$64,490,373	\$76,875,640	\$12,385,267	83.9%	\$13,982,752	88.6%
1/1/2002	\$60,615,356	\$71,022,123	\$10,406,767	85.3%	\$13,268,405	78.4%
1/1/2000	\$54,015,622	\$63,939,027	\$9,923,405	84.5%	\$11,833,509	83.9%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	9	12	5	12	12	8	15	11	19	9
Ordinary Disability	0	1	0	0	0	0	0	0	0	0
Accidental Disability	1	1	1	0	1	0	2	1	2	0
Total Retirements	10	14	6	12	13	8	17	12	21	9
Total Retirees, Beneficiaries and Survivors	326	331	325	324	325	313	320	316	320	317
Total Active Members	370	379	396	400	417	400	384	384	370	370
Pension Payments										
Superannuation	\$1,788,381	\$1,876,667	\$2,070,013	\$2,236,348	\$2,482,245	\$2,627,850	\$2,759,689	\$2,939,912	\$3,294,906	\$3,473,426
Survivor/Beneficiary Payments	24,423	24,184	33,602	35,615	37,410	38,703	46,299	64,863	40,303	38,721
Ordinary Disability	129,993	141,854	159,060	159,232	154,571	157,541	159,962	156,403	149,595	139,754
Accidental Disability	326,945	312,002	291,540	325,756	306,210	321,545	374,812	413,916	123,013	201,944
Other	538,894	534,529	514,520	526,261	502,082	481,844	127,532	129,926	235,410	214,833
Total Payments for Year	<u>\$2,808,636</u>	<u>\$2,889,236</u>	<u>\$3,068,735</u>	<u>\$3,283,212</u>	<u>\$3,482,518</u>	<u>\$3,627,483</u>	<u>\$3,468,294</u>	<u>\$3,705,020</u>	<u>\$3,843,227</u>	<u>\$4,068,677</u>

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